



NEWS

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President Announces Nation's First SBA Venture Capital Company Targeting Low, Moderate Income Areas

PHOENIX, AZ – President Clinton's economic mission across America brought him to Phoenix today, where he announced the formation of the nation's first Small Business Administration-backed venture capital company targeting low- and moderate-income areas.

SBA Administrator Aida Alvarez is traveling with the President. SBA's New Markets investment fund, an effort to establish SBA-backed private sector venture capital companies that will invest in small businesses located in low- and moderate-income areas, is an important element in the Clinton/Gore Administration's economic opportunity agenda, the "New Markets Initiative."

The President said that the new venture capital company, Magnet Capital, is being formed to provide small businesses in Arizona with the kind of equity investments that helped get firms like Intel, America OnLine, and Federal Express going when they were young. Magnet Capital has raised \$5 million in private capital and can leverage that with up to \$15 million in SBA-backed funding.

"Even though this is a blessed time for America, not all Americans have been blessed by it," said President Clinton. "This is the time to bring more jobs and investment and hope to the areas of our country that have not fully participated in this economic recovery."

SBA Administrator Alvarez added: **"We all know that there are some Americans and some places in America that haven't been full partners in our economic revival. And, we can't continue to do well into the 21st century unless the doors of economic opportunity are wide open for all Americans. That's what the New Markets Initiative is all about."**

Magnet Capital is an initiative of Arizona MultiBank, which also is a significant investor in the firm's investment pool. Andrew Gordon, President of Arizona MultiBank, will serve on the advisory board. The bank today filed its application with the SBA to become the first SBIC in the

country to base its investment strategy on small businesses located in low- and moderate income (LMI) areas.

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99/62 – Page Two

Six major banks have joined Arizona Multibank in contributing a total of \$5 million in private capital, the minimum amount required to start an SBIC. They are: Bank One, Wells Fargo, Sears National Bank, Union Bank of Arizona and Northern Trust Bank.

Mike Shields, national projects manager for Bank One, and Greg Mischel, a former Bank of America executive, will be general partners and managers of Magnet Capital.

Magnet Capital plans to focus on those smaller businesses in Arizona that have traditionally been overlooked by venture capitalists. That strategy will allow it to utilize a new funding mechanism designed by the SBA to stimulate venture capital investments by SBA-backed small business investment companies (SBICs) in New Markets areas.

The LMI funding will allow SBICs to defer for five years interest payments on money borrowed with SBA guarantees so that they will be more willing to take risks on small businesses in low- and moderate-income areas.

SBICs that make LMI investments will also have more flexibility than other SBICs to participate in the ownership and management of the companies in which they invest, allowing them to work more closely with start-up companies or people with good ideas but relatively inexperienced management.

Under the SBIC program, SBA-licensed venture capital companies put risk capital, in the form of debt and equity financing, into small businesses for growth, modernization and expansion. SBICs are privately owned and managed, for-profit investment companies licensed by the SBA. They make equity investments and long-term loans to small businesses, using their own capital supplemented with funding secured through the use of SBA guarantees.

Over the past 40 years the program has provided roughly \$20 billion in equity and debt financing to more than 85,000 different companies. Many of them have become household names, such as Intel, Apple Computer, Federal Express, America OnLine, and Outback Steakhouse.

Magnet Capital is a direct result of a series of workshops the President asked the SBA to hold around the country to encourage the formation of SBICs focusing on meeting the needs of New Markets entrepreneurs. Arizona MultiBank, under its President, Andrew Gordon, was the first organization to agree to create such an SBIC.

In addition to announcing Magnet Capital, the President also announced his intention to create New Market Venture Capital Companies. Unlike the LMI SBICs, which were created administratively, however, this proposal will require Congressional approval.

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99/62-Page Three

Under it, SBA would fund between 10 and 20 New Markets Venture Capital Companies (NMVCs). These will be venture capital companies that provide a combination of equity venture capital financing and technical assistance to smaller businesses located in LMI areas. In the past, these businesses have been severely limited by a lack of adequate funding for both investment and technical assistance

The NMVC program will meet this need by providing government-guaranteed long-term funding, combined with technical assistance grants, to private sector, for-profit community development venture capital companies that will target their efforts in New Markets areas. SBA will require that each NMVC invest principally in small businesses located in LMI areas.

SBA Administrator Alvarez said SBA will do what it can to continue to encourage venture capital investments in LMI areas.

“New Markets communities are rich with untapped potential,” she said. “Each loan, each investment enriches the community by creating jobs and fulfilling dreams. And SBA-backed venture capital companies deliver the goods.”

For more information on the SBIC program and other SBA programs, call the SBA Answer Desk at 1-800-U-ASK-SBA, or visit the SBA's extensive website at www.sba.gov.

The U.S. Small Business Administration, established in 1953, provides financial, technical and management assistance to help Americans start, run, and grow their businesses. With a portfolio of business loans, loan guarantees and disaster loans worth more than \$45 billion, the SBA is the nation's largest single financial backer of small businesses. Last year, the SBA offered management and technical assistance to more than one million small business owners. The SBA also plays a major role in the government's disaster relief efforts by making low-interest recovery loans to both homeowners and businesses. America's 24 million small businesses employ more than 50 percent of the private workforce, generate more than half of the nation's gross domestic product, and are the principal source of new jobs in the U.S. economy.

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